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RBI Digital Lending Directions 2025: A significant step forward in India's Digital Lending Ecosystem



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PRELUDE

Over the past decade, India has witnessed a significant increase in the adoption of digital banking applications for day-to-day financial activities. During this period, the use of mobile applications of banks and Unified Payments Interface (UPI)-based platforms for conducting routine transactions has also grown substantially. The use of these platforms witnessed a significant rise following the imposition of lockdown in India due to COVID-19 pandemic.

There has also been a notable increase in the financial mobile applications/ platforms providing relatively quick and easy loans. However, most of the entities providing said financial facilities operated without any regulatory oversight. Many of the said platforms charged exorbitant interest rates and some of them even engaged in unethical practices, including the unauthorized collection and sharing of customer data with third parties, thereby violating users' "right to privacy". There was also absence of any grievance redressal mechanism.

The Reserve Bank of India (**RBI**) sought to address these concerns while simultaneously acknowledging the growing demand for quick and accessible credit solutions by notifying:

- a. The Guidelines on Digital Lending dated September 02, 2022; and
- b. The Guidelines on Default Loss Guarantee dated June 08, 2023.

In furtherance to the same RBI has recently notified Digital Lending Directions 2025 on May 08, 2025 (**'Digital Lending Directions'**), to, *inter-alia*, consolidate the earlier instructions along with certain new measures for arrangements involving Lending Service Providers¹ and for creation of directory of digital lending apps with an objective of increasing transparency and enhancing customer protection.

APPLICABILITY

Scope of Applicability by Entity types:

The Digital Lending Directions shall be applicable to Regulated Entities, which have been defined to include (a) commercial banks, (b) primary co-operative banks, (c) NBFCs including Housing Finance Companies and (d) All India Financial Institutions (**Regulated Entity(ies)**).

¹ Lending Service Providers mean an agent of Regulated Entity (including another Regulated Entity) who carries out one or more of Regulated Entity's digital lending functions or part thereof, in customer acquisition, services incidental to underwriting and pricing, servicing, monitoring recovery of specific loan or loan portfolio on behalf of RE in conformity with extant outsourcing guidelines issued by the RBI.

Scope of Applicability by Transaction types

The aforesaid Digital Lending Directions pertains primarily in relation to Digital Lending which have been defined to mean remote and automate lending process largely by use of seamless digital technologies for customer acquisition, credit assessment, loan approval, disbursement, recovery, and associated customer service.

BRIEF SNAPSHOT

The Digital Lending Directions predominantly consolidates the previously notified guidelines on Digital Lending and Default Loss Guarantee, while introducing amendments aimed at enhancing transparency and customer protection. A concise overview of the key provisions of the Digital Lending Directions is presented below.

Appointment of Lending Service Provider	:	<p>The Regulated Entity may appoint a Lending Service Provider (<i>which may also be another Regulated Entity</i>) may be appointed as agent to carry out one or more of the lending functions in customer acquisition, services incidental to (a) underwriting and pricing, (b) servicing, (c) monitoring, (d) recovery of loan to the extant outsourcing guidelines issued by RBI.</p> <p>The fee/ charges payable to the Lending Service Provider shall be incurred by Regulated Entities and shall not be collected by the Borrower.</p>
Disclosure to Borrowers by the Regulated Entities	:	<p>The Regulated Entities shall, inter-alia, disclose:</p> <ol style="list-style-type: none">Key Fact Statements²;Summary of loan product, terms and conditions, sanction letter, account statements, privacy policies with respect to storage and usage of borrower's data;Details of Lending Service Provider and Digital Lending Platform engaged;Details of customer care and grievance redressal mechanism;Link to RBI's Complaint Management System;Privacy Policies;

² Key Facts Statement (KFS) is a statement of key facts of a loan agreement, in simple and easier to understand language, provided to the borrower in a standardised format.

		g. In case of default - Details of recovery agents assigned to approach the borrower for recovery.
Customer Benefits	:	<p>a. In cases where Lending Service Provider has agreement with multiple Regulated Entities for digital lending, each Regulated Entity is required to provide a digital view of all the loan offers matching the borrower's requirement on the Digital Lending Platform³ which meets the requirement of the borrower.</p> <p>b. There shall be no automatic increase in credit limits unless explicit approval is received from Borrower.</p> <p>c. The Borrowers shall have the option to exit the digital loan during the cooling off period by paying the principal amount with Annual Percentage Rate without any penalty. The cooling off period shall be determined by the Regulated Entities subject to a period of not less than one day.</p>
Regulated Entity Obligations	:	<p>a. Regulated Entities to obtain information necessary to determine the economic profile of the borrower as may be essential to determine the borrower's creditor worthiness.</p> <p>b. Regulated Entities to ensure that they along with any Lending Service Providers engaged by them comply with technology standards/ requirements on cybersecurity stipulated by RBI.</p> <p>c. Regulated Entities to ensure timely reporting of all lending activities undertaken through digital platforms to Credit Information Companies, in accordance with the provisions of the Credit Information Companies (Regulation) Act, 2005, and any rules, regulations, or guidelines issued thereunder.</p> <p>d. Regulated Entities are required to disclose all Digital Lending Platforms deployer/ joined by them on the Centralised Information Management System (CIMS) portal of RBI.</p>
Loan Disbursal, Servicing and Recovery	:	Flow of funds between the Regulated Entity and Borrower shall be direct and shall not be controlled by any third party. Accordingly, loan disbursements shall be made directly into the bank account of the borrower, except in cases where disbursal is permitted under a

³ Mobile and/or web-based applications, on a standalone basis or as a part of suite of functions of an application with user interface that facilitate digital lending services. DLAs shall include applications of the Regulated Entities as well as those operated by Lending Service Provider (LSP) engaged by Regulated Entities for extending any credit facilitation services in conformity with extant outsourcing guidelines issued by the RBI.

		statutory or regulatory mandate. Similarly, all loan servicing and repayments shall be credited directly to the bank account of the Regulated Entity. Lending Service Providers shall not be permitted to act as intermediaries or agents in these transactions.
Prepayment of Loan availed from Regulated Entities	:	The Borrower shall have an option to repay the principal amount with the proportionate annual percentage rate without any penalty during a cooling off period as may be determined by Regulated Entities. Prepayment after cooling period shall be in terms of the guidelines prescribed by RBI.
Data collection and storage	:	<ul style="list-style-type: none"> a. Data collection shall be need based and with prior and explicit consent of the Borrower. b. Regulated Entities and their agents/ service providers shall desist from accessing mobile phone resources like file and media, contacts etc. c. Minimum data required for KYC and on-boarding purposes may be taken and retained. d. Consent of borrower to be taken prior to the sharing of its data with third parties (<i>except for such cases where sharing is required to be done under statutory or regulatory requirement</i>). e. Regulated Entities shall ensure that Lending Service Provider shall store only minimum personal information of the Borrower as required by them to carry out its operations. f. All data should be stored only in the servers located within India. In the event any data is processed outside India shall be deleted from servers outside India and shall be brought back to India within 24 hours of processing. g. Regulated Entities and Lending Service Provider to have comprehensive privacy policies and the same should be disclosed on their respective websites.
Default Loss Guarantee ⁴	:	A Regulated Entity may enter into a Default Loss Guarantee contract with a Lending Service Provider or another Regulated Entity. Further, a Default Loss Guarantee (DLG) executed with the Lending Service Provider shall be incorporated as a Company under

⁴ A contractual arrangement, called by whatever name, between the RE and another entity, under which the latter guarantees to compensate the RE, for the loss due to default up to a certain percentage of the loan portfolio of the RE, specified upfront. Any other implicit guarantee of similar nature, linked to the performance of the loan portfolio of the RE and specified upfront, shall also be covered under the definition of DLG

		<p>the Companies Act, 2013.</p> <p><u>Restrictions on DLG arrangement:</u> DLG arrangements cannot be entered in relation to:</p> <ol style="list-style-type: none"> Revolving credit facilities offered through digital lending channel and credit cards; Loans which are covered by credit guarantee schemes administered by trust funds; In regard to NBFCs – Loans facilitated over its platform on Peer-to-Peer Lending Platform. <p><u>Cap on DLG:</u> DLG Coverage on an outstanding portfolio shall not exceed 5% of the total amount disbursed out of that loan portfolio. In case of implicit guarantee, performance risk shall not be more than 5% of the underlying portfolio.</p>
Institutional Mechanism for Banks	:	<p>The Regulated Entities shall, <i>inter-alia</i>, report to RBI on:</p> <ol style="list-style-type: none"> Lending done through Digital Lending Apps/ Platforms (<i>DLA/DLP</i>) Digital lending products by Regulated Entities/ Lending Service Provider involving short term, unsecured/secured credits or deferred payments DLAs deployed by them. Chief Compliance Officer to certify the authenticity of data submitted on CIMS portal of RBI.
Grievance Redressal Mechanism	:	<p>The Regulated Entities and LSPs having interface with the Borrower shall designate nodal grievance redressal officer for dealing with the complaints raised by the Borrower in relation to Digital Lending activities.</p> <p>The contact details of the Nodal Officer and process of filing complaints is required to be made available on the DLA.</p>

CONCLUSION

The Digital Lending Directions, 2025 issued by the Reserve Bank of India mark a critical advancement in the regulation of India's fast-evolving digital lending landscape. These Directions are not merely administrative guidelines, but a comprehensive regulatory framework aimed at strengthening oversight, promoting responsible lending practices, and safeguarding the interests of borrowers.

By addressing critical issues such as data privacy, customer protection, and operational transparency, the Digital Lending Directions seek to instil greater accountability among Regulated Entities and Lending Service Providers. The reformative nature of the updated guidelines is evident in several key provisions, including the explicit consent-based data usage policies, introduction of flexibility in relation to cooling-off period, and the requirement to disclose the digital view of all the loan offers matching the borrower's request. These measures are intended to provide borrowers with both flexibility and informed control over their financial engagements. In essence, the Digital Lending Directions lay the foundation for a more responsible, inclusive, and resilient digital lending ecosystem, aligning regulatory oversight with the dynamic nature of technological advancements in financial services.

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